



Is Now the Time to Buy Loblaw Companies Ltd. Stock As it Moves to E-Commerce?

Description

The [e-commerce revolution](#) that has taken the world by storm has left the stock prices of retailers worldwide in the dust, with investors favoring that growth companies like **Amazon.com, Inc.** ([NASDAQ:AMZN](#)) provide when compared to big box stores such as **Loblaw Companies Ltd.** ([TSX:L](#)).

What is interesting is the process by which valuations have changed over the past few years; as e-commerce growth has continued to significantly outpace that of bricks and mortar retailers such as Loblaw, valuation multiples for e-commerce mega giants have continued to expand alongside increasingly bullish expectations. On the flip side, some may argue that retailers such as Loblaw have been hit disproportionately and thus are excellent buys at current levels.

Loblaw has announced that it will be making a much bigger push into e-commerce, suggesting that by the end of the year, Canadians will have a range of options to choose from when picking their grocery items online. Notably, the company's "Click and Collect" program will be given a facelift, changing to "PC Express," all the while adding an additional estimated 500 locations by the end of the year. This large investment in infrastructure and branding suggests that the company is bracing itself for a long fight in hopes of regaining the faith of investors in the process.

The company's e-commerce push could provide long-term stability to the company's cash flows should Loblaw be able to effectively integrate its e-commerce platforms with its Shoppers Drug Mart locations. Grocery is a slim to nil-margin business, fraught with issues such as deflationary prices on high volume items, spoilage, and transportation issues (Canada is a massive country), among others. The profitability of its business model is subject to the current intensity of price positioning within the Canadian grocery market. As retailers cut prices to gain market share, the corresponding price wars do nothing to serve the interest of Loblaw shareholders, although shoppers may rejoice in paying a few pennies less for those expensive avocados.

While the future profitability of Shoppers Drug Mart has come into question due to changing generic drug regulations among other aforementioned issues that stand to drain profitability, the reality is that Shoppers is likely to deliver higher levels of EBIDTA over the long term on a percentage basis, for

Loblaw shareholders. Additionally, innovation within the pharmaceutical/healthcare space is likely to drive margins higher and increase market share as patients look for increasingly convenient ways to pick up their medications. With [cannabis sales](#) potentially on the horizon, Loblaw investors have yet another positive catalyst on the horizon for its Shoppers' division.

Stay Foolish, my friends.

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1. NASDAQ:AMZN (Amazon.com Inc.)
2. TSX:L (Loblaw Companies Limited)

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1. Msn
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